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MINUTES
ECONOMIC POLICY COUNCIL

February 10, 1986
11:15 a.m.
Roosevelt Room

Attendees: Messrs. Baker, Block, Baldrige, Brock, Yeutter, Sprinkel, Whitfield, Burnley, Wright, McAllister, Amstutz, Brown, Burns, Davis, Danzansky, Driggs, Gray, Hoffman, McMinn, Mulford, Smart, Stucky, and Wallis, and Ms. Risque.

1. Report of the Working Group on Sugar

Secretary Baker proposed that the Economic Policy Council consider recommending to the President that the Administration rely on textile initiatives and in-kind commodity assistance to mitigate the harmful effects of the quota reduction on the CBI countries. Ambassador Yeutter stated that the CBI textile initiative, to be presented to the President next week, would prompt additional growth of up to $150 million a year in the CBI countries, exceeding the $102.5 million loss attributable to the reduction in the sugar quota. Several Council members noted that the Australians are the most efficient sugar producers in the world and that reallocating quotas would harm them and encourage the CBI countries to continue to invest in sugar production, a sector in which they are less efficient than other parts of the world. The Council unanimously agreed to recommend to the President that he assist the CBI countries through the proposed textile initiative and the in-kind commodity assistance proposal.

Mr. Amstutz stated that the Working Group on Sugar had developed four options for reforming the sugar program:

1. Propose legislation repealing the "no forfeiture" provision of the domestic sugar program;

2. Reintroduce our 1985 Farm Bill proposal to gradually reduce the sugar loan rates;

3. Propose legislation basing the loan rate on market prices; and

4. Propose legislation controlling domestic sugar supplies.

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He stated that option one was the most practical, option three the most philosophically attractive, and option four the most radical, representing a shift in the sugar program toward the tobacco program.

Secretary Block stated that Congress is most likely to enact option four, although he would not support it. Ambassador Yeutter suggested that only options two and three are viable from the Administration's viewpoint, and that option two, our previous proposal, was the more logical proposal to send to Congress.

Decision

The Council unanimously agreed to recommend to the President that the Administration adopt option two, reintroduce our 1985 Farm Bill proposal to gradually reduce the sugar loan rate.

2. The Export Enhancement Program

Mr. Amstutz stated that the 1985 Farm Bill mandates that the Administration use all of the $2 billion Export Enhancement Program, as evenly spread out over fiscal years 1986-88 as possible. He noted that when the Administration agreed to adopt the Export Enhancement Program last May in an effort to achieve a budget resolution we could support, we agreed to use up to $2 billion.

Mr. Amstutz stated that the Economic Policy Council established six criteria for administering the Export Enhancement Program, three of which were published, and three which were not. The three published criteria are:

1. There must be additionality;

2. The subsidies must be targeted; and

3. The program must be budget neutral.

The three unpublished criteria are:

1. Debtor nations, such as Brazil and Argentina, must be protected;

2. The Soviet Union and Soviet Bloc countries must not receive subsidies; and

3. Non-subsidizing exporters, such as Australia and Canada, must not be affected.

Mr. Amstutz stated that Congress was not satisfied with the pace of the program under these criteria and made the complete expenditure of the $2 billion program mandatory. He explained that in following the law, USDA must implement across-the-board subsidies, including the Soviet Union and affecting non-subsidizing exporters. He stated that the TPRG had developed two options for the Council's consideration:

1. Amend the 1985 Farm Bill to make the program discretionary; and

2. Stretch out the length of the program from 3 to 5 years.

The Council discussed a number of issues, including the Administration's strong opposition to subsidizing the Soviet Union. Mr. Amstutz stated that he tried to persuade the Congress to include a reservation about national security considerations in the Farm Bill but was rebuffed. Several members of the Council suggested that the root of the problem is the EC's policy of subsidizing agricultural exports.

Secretary Baker suggested that the Administration might seek to incorporate the current criteria guiding our administration of the program into law. Secretary Block suggested that rather than specify the Soviet Union or Soviet Bloc countries as ineligible for subsidies, the legislative proposal simply state that non-MFN nations are ineligible for subsidies.

<u>Decision</u>

The Council unanimously agreed to recommend to the President that the Administration seek legislation incorporating the six criteria under which the program is now operating into law.